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EFTA Bulletin

EUROPEAN FREE TRADE ASSOCIATION

HELSINKI: Statue of Paavo Nurmi. (See page 3, "Welcome for a Nordic Partner".) *(Photo: H. T. Lehrmusto)*

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WELCOME FOR A NORDIC PARTNER

By Mr. Gunnar Lange, Swedish Minister of Commerce

FOR important economic reasons and for reasons of Finnish foreign trade policy, the Finnish Government is obliged to study most carefully the plan concerning the setting up of the Free Trade Area and its economic consequences. At this stage I am, however, already prepared to state that if the plan does not include political obligations nor provide for supranational organs Finland is not less interested in this plan than the other Nordic countries.

With these words Mr. Sukselainen, the Prime Minister of Finland, expressed Finland's positive attitude towards EFTA, which was then taking shape, at the meeting of Nordic Prime Ministers in Kungälv on 11-12th July, 1959. When, later in the same month, the Ministers from the EFTA countries met at Saltsjöbaden to consider the preliminary plans for a free trade area, which had been drawn up by officials, this statement was repeated by the Finnish Minister of Commerce.

The appreciation even at this early stage of the significance of EFTA for Finland's foreign trade and her whole economy must be seen against the background, firstly of Finland's inability to remain completely outside of European economic integration and secondly, of the composition and direction of Finland's foreign trade. During recent years about 30 per cent of Finnish exports have gone to EFTA countries, about 25 per cent to the E.E.C. countries and about 25 per cent to the Soviet and other countries with which Finland has bilateral trade agreements. Almost as large a share of Finnish exports goes to those countries with which Finland's trade is regulated by bilateral agreements, above all the Soviet Union, as goes to EFTA countries.

It is therefore natural that Finland has been anxious to make the association with EFTA such that these commercial relations would not be jeopardised. EFTA has shown full understanding for this position and during negotiations extending over more than a year, the EFTA countries have striven to give the fullest possible consideration to Finnish interests in this respect. Already in the proposal for an association agreement between EFTA and Finland which was before the EFTA Ministerial Council Meeting in Lisbon on 20th May, 1960, Finnish commercial interests in relation to the countries in question were taken into consideration through various exceptional provisions. This was done in such a way that at the Lisbon meeting the Finnish Government declared itself able to accept the proposal for an association agreement.

The importance that Finland naturally attaches to a good neighbour relationship with the Soviet Union led the Finnish Government to wish to consider further the compatability of the association agreement worked out in Lisbon with the Soviet-Finnish friendship and trade agreements. This fact was also met with full understanding on the part of EFTA. It was therefore possible without too much loss of time to agree on the modifications to this association agreement which were occasioned by the customs agreement between the Soviet Union and Finland, the latter the result of Finnish-Soviet discussions concerning the consequences of Finland's association with EFTA.

So Finland's relations with her large trading partners have, through the shaping of the association agreement and the negotiations related to it, been settled in a satisfactory way for both Finnish exporting industry and industry supplying the home market. The way has been paved to enable Finnish foreign trade and Finnish commerce and industry to develop further and to adapt to the circumstances which can be expected to exist in the larger market that is being created.

The agreement of association between Finland and EFTA is however not only of interest to Finland. Finland's link with EFTA will certainly at the same time bring tangible advantages to the EFTA countries through the contribution to the larger market that will be made by Finland with her population of over four million and her vigourously expanding market. An agreement with Finland is also an important step towards the realisation of EFTA's goal of freeing world trade as a whole. Finnish association with EFTA is a concrete proof of EFTA's outward-looking character and desire to cooperate.

Finland's association with EFTA will also be significant for the efforts that have been made for many years to achieve closer economic cooperation between the Nordic countries. Finland has taken an active part in these endeavours and, not least, has emphasised during the past years the importance of the achievement of as broad a Nordic cooperation as possible in the economic field. Through Finland's joining the northern group of EFTA countries the prospects for a continued and intensified economic cooperation among these countries and for giving this cooperation a concrete form have improved.

It is therefore with the greatest satisfaction that one can say that an association between Finland and EFTA is now to be achieved. There is every reason to believe that this cooperation will be fruitful and both sides are anxious that this will be the case. By deciding to take part in EFTA's accelerated tariff reductions and to reduce her tariffs by 30 per cent in relation to EFTA countries already by 1st July this year, Finland has shown her wholehearted and positive attitude towards EFTA. (Tr.)

ASSOCIATION AGREEMENT WITH FINLAND

Outline and Explanation

One of the objectives of EFTA is to contribute to the expansion of world trade and to the progressive removal of barriers to it. The Stockholm Convention therefore contains provisions for extending the co-operation between the seven original Member States to other countries.

According to Article 41 of the Stockholm Convention, such cooperation between the original Member States and third countries may take one of two forms. A third country may *accede* to the Convention, whereby it becomes a Member State having exactly the same status as the original Member States and sharing with them the rights and obligations set out in the Convention. The other possibility is an *association* which may embody such reciprocal rights and obligations as may be negotiated between the Member States and a third country. It may be easier to meet special problems of a third country seeking relations with the EFTA countries by such an arrangement than by membership. It was for that reason that when negotiations started for an arrangement between Finland and the EFTA countries, the Finnish Government sought an association.

The Agreement recently signed at Helsinki creates a free trade association between the seven EFTA countries on the one hand and Finland on the other. This free trade association will co-exist with the European Free Trade Association which will continue to function as before, with its institutions unaffected by the Agreement.

The Contents of the Agreement

General Rights and Obligations in the Commercial and Economic Fields (Article 2)

It was the intention of Finland and the EFTA countries that the arrangement finally reached between them should to the maximum extent possible give Finland the same rights and obligations in the commercial and economic fields as the EFTA countries have among themselves. This has been achieved by the simple expedient of making all the provisions of the Convention which relate to trade and economic matters, as they stand on the date of signature of the Agreement, applicable also in the relations between Finland and the EFTA countries. The abolition of trade barriers between Finland and the members of EFTA will take place at the same pace as between the members of EFTA.

Exceptions (Articles 3 and 4)

The exceptions to this principle are few and all aim at meeting special difficulties in Finland's economy. The reduction of customs duties at the tempo foreseen in the timetable of the Stockholm Convention might create special difficulties for some Finnish industries which are in the process of development, particularly the textile and the metal-working industries.

Finland is, therefore, authorised to reduce its duties on some goods competing with products manufactured by those industries at a slower pace (Article 3 and Annex I to the Agreement). The date of the final elimination of these duties will, however, be the same as for other duties, namely, 1st January, 1970.

Another provision (Article 4) takes account of the fact that a very substantial part of Finland's foreign trade is regulated by bilateral trade agreements. In order to allow Finland to fulfil its obligations under these agreements, Finland may maintain its existing quantitative import restrictions on a limited number of goods, in particular solid and liquid fuels and fertilizers (Annex II to the Agreement). Finland must, however, apply these restrictions in such a way that suppliers in the EFTA countries are given the opportunity of competing with other suppliers on fair and equal terms for a reasonable share of the Finnish market in these products.

Invisible Transactions and Transfers (Article 5)

As all the EFTA countries are members of other international organisations which have liberalised invisible transactions and transfers, the Stockholm Convention does not contain extensive provisions for these matters. Finland is, however, not a member of all these organisations and the Agreement, therefore, provides that the Member States will treat Finland no less favourably in this field than they treat each other, and Finland, on its part, will grant no less favourable treatment to the EFTA countries than that accorded to it by them.

Institutional and Organisational Questions (Articles 6-10)

The fact that Finland's relations with the EFTA countries have taken the form of a separate free trade association distinct from the European Free Trade Association means very little, if any, difference in the position of Finland and that of the EFTA countries so far as trade is concerned. The distinction appears primarily in the institutional and organisational provisions of the Agreement.

The Joint Council (Article 6, paragraphs 1-3)

A new Council, known as the Joint Council, will be established. Each EFTA country and Finland will be represented on this Council, which will deal with all matters arising from the relations between Finland and the EFTA Member States. In particular it will supervise the application of the Agreement and keep its operation under review. Within this field, the Joint Council will have the same powers and functions as the EFTA Council has for corresponding matters among the seven Member States. The two Councils will work independently, but in practice naturally with a considerable degree of co-ordination.

Voting (Article 6, paragraphs 4-7)

The rules of voting also follow closely the system adopted in the Stockholm Convention. The same kinds of decisions are subject to unanimous and majority voting respectively in the two Councils.

As mentioned above, the Agreement means that Finland will enter into the same rights and obligations as those existing between EFTA Member States on the date of signature of the Agreement. In order to avoid the rights and obligations within the two free trade associations developing differently, Article 6, paragraphs 6-7, provides for a procedure to be followed as regards Finland's acceptance of decisions taken by the EFTA Members after that date. In principle all unanimous decisions (i.e. in most cases, decisions amending the Convention and creating new obligations for the Member States) are referred to the Joint Council; if Finland accepts them without reservation they become binding on it and apply in its relations with the Member States.

Majority decisions (these are nearly all decisions concerning derogations from the rights and obligations of the Member States) are referred to the Joint Council if this is requested by Finland or any of the EFTA Member States; the Joint Council may then decide by majority vote that the decision shall become binding also on Finland and apply in relations between it and the Member States of EFTA. It would be unreasonable and create practical difficulties if a decision taken by the Council of EFTA permitting a Member State to derogate from its usual obligations were not also to apply in respect of an associated country, as the latter would otherwise be put in a more favourable position than the Member States. For this reason paragraph 7 of Article 6 of the Agreement provides that in such special cases the affirmative vote of four instead of five out of the eight members of the Joint Council shall be sufficient to approve such decisions of the EFTA Council, when they are referred to the Joint Council.

Acceptance and Entry into Force (Article 7)

The Agreement is subject to acceptance by the signatory States and will enter into force on the deposit of instruments of acceptance by all those States.

Accession (Article 8)

If a third country *accedes* to the Stockholm Convention, the Council of EFTA will decide whether the country in question shall also accede to the Agreement with Finland. If, on the other hand, a country enters into an *association* with EFTA, the Joint Council will decide on what terms it may also accede to the Agreement with Finland.

Termination and Withdrawal (Article 9)

Finland or the EFTA countries acting collectively may *terminate* the Agreement on three months' notice. In order to ease the administrative and commercial difficulties which may result from the termination, the Joint Council may decide in such a case that the provisions of the Convention which apply in the relations between Finland and the EFTA countries, shall continue to apply in full or in part for a period of nine months from the date of termination. The most typical example of the usefulness of this provision is that it permits a gradual return to the general level of tariffs in case of termination, instead of an abrupt change from reduced or even eliminated tariffs to the tariffs applied on imports from third countries. Any of the EFTA countries may *withdraw* individually from the Agreement on three months' notice and an EFTA country which withdraws from the Stockholm Convention will automatically cease to be a party to the Agreement with Finland.

Amendments (Article 10)

The Joint Council is empowered to amend a certain number of the provisions of the Agreement by unanimous decision. In all other cases, amendments require not only the unanimous approval of the Joint Council but also acceptance by all the parties to the Agreement in a separate legal instrument.

Date of First Tariff Reductions and Relaxation of Quantitative Restrictions

It is expected that all the eight countries which are parties to the Agreement will be able to carry out the necessary constitutional formalities in time to deposit their instruments of acceptance before 1st July, 1961. In that case, the first tariff reductions and the first relaxation of quantitative import restrictions will take place on that date. Finland will then reduce its duties towards the EFTA countries by 30 per cent for most products and the Member States of EFTA will extend to Finland the 20 per cent reduction they have already made, together with the further 10 per cent reduction to be made on 1st July, 1961.

EFTA's Basic Objectives

EFTA's aim is to achieve free trade in industrial goods between the Seven countries and to enable their trade in agricultural and marine products to expand. The Member States are determined:

(i) to do all in their power to bring about an accommodation between the Seven and the Six, in order to achieve a single market and the closest economic cooperation in Western Europe;

(ii) by preserving the unity and increasing the economic strength of Europe, to enable it to contribute to the expansion of world trade and so assist the newly developing countries.

THE FINNISH ECONOMY

By a Special Correspondent.

WITH a population of approximately 4.5 millions and a net national income of 1,147 billion Finnish markkas, which corresponds to a per capita income of just over 800 U.S. dollars, Finland comes within the medium income bracket of the European family of nations.*

Finland has often been referred to as having a "national economy based on wood", undoubtedly a striking definition though a very incomplete picture. In 1960 agriculture and forestry together accounted for 21% of the net national product, and manufacture and construction for 41%; the remaining 38% was accounted for by distribution and services. Each of the three categories employed about one third of the population.

Following the devaluation of the Finnish markka in September, 1957, together with extensive liberalisation of imports, the authorities were much occupied with problems of internal balance. The decline in overall economic activity was brought to a halt in the latter part of 1958 and a new upward trend commenced. In the first half of 1959 this gained strength and in the autumn of the same year it can be claimed to have become established as a new phase of expansion. During 1960 this rising trend continued at an accelerated pace; the gross national product increased by 8% and practically all spare capacity and manpower was absorbed. Through the main part of this period, production has been stimulated by the lively demand for the leading Finnish export products, though in the early stages the main factor was private consumer demand. Gradually private domestic investment became the major force and during 1960, when it was especially marked in respect of industrial and business buildings and machinery and production equipment, it increased by 15%.

The investment boom, in turn, was the major element tending to increase imports which, as experience in Finland has proved, are always very high in periods of expansion.

The northern location of the country with its internal structure of agriculture, characterised by the small average size of the holdings, dictated the present pattern of farm output with production consisting mainly of dairy products. Thus Finland has a production surplus of about 25% in respect of milk at the same time as a 70-75% degree of self-sufficiency in respect of bread grains.

Export and Home Industries

Traditionally the wood and paper industries have been defined as export industries and all other branches of manufacturing as home market industries. This division is, nevertheless, no longer quite correct, in so far as the metal industry has developed substantial exports especially during the 1950's; the value of these exports corresponds to about 25 per cent of the gross value of production and to about one sixth of total

* 320 markkas = 1 U.S.$.

(*Continued on page 8*)

FINLAND'S TRADE WITH EFTA COUNTRIES

ONE fifth of Finland's trade is done with the United Kingdom, which takes about one quarter of Finnish exports. It is above all an important customer for Finnish wood products, buying in 1960 round timber, posts, sawn products and other wood products to a value of 41.8 billion markkas, — 41 per cent of Finland's total exports of wood products, and about 33 per cent more than in 1959.

As a supplier, the United Kingdom took second place in 1960 to Western Germany, providing about 16 per cent of Finland's total imports.

Although Sweden and Finland are competitors so far as their main exports are concerned, there is extensive trade between the two neighbouring countries. In order of importance, Sweden is fourth among Finland's trading partners, after the United Kingdom, Western Germany and the Soviet Union. Last year Sweden's share of total Finnish trade amounted to about 8 per cent; 5 per cent of Finnish exports went to Sweden, which supplied 10 per cent of Finland's imports.

Of the EFTA countries, Denmark is Finland's most important trading partner after the United Kingdom and Sweden. Some 3 per cent of Finnish trade is done with Denmark, which buys from Finland wood and paper products ; the main imports into Finland from Denmark consist of machinery and chemicals.

The four remaining EFTA countries account for about 3.5 per cent of Finland's total trade.

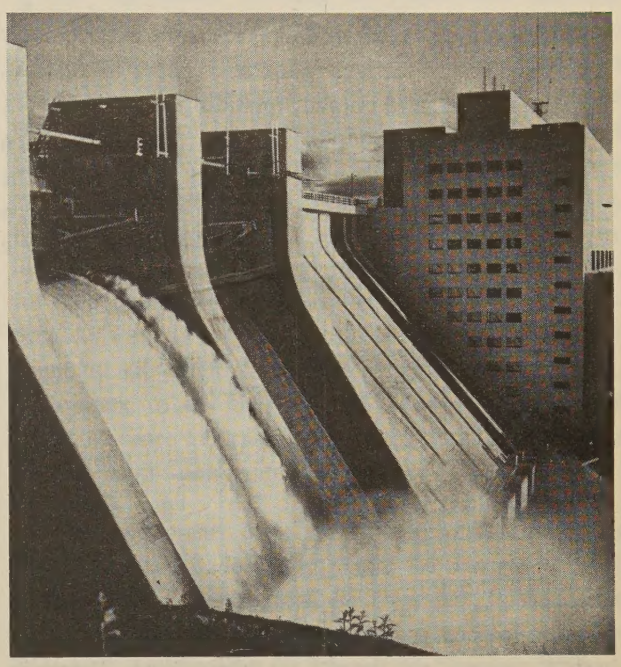
FINLAND'S APPROACH TO EFTA

By Mr. Ahti Karjalainen, Finnish Minister of Commerce.

THE main reason for Finnish interest in participating in the commercial arrangements provided for by the European Free Trade Association has been our desire to make use, for the benefit of our country and its people, of every opportunity we may have to improve the situation of our foreign trade. This interest arises from the fact that roughly every fourth markka earned by the Finns comes from the export of goods and services. In this respect, exports are a most important factor in Finland's economic growth.

The free trade arrangement between Finland and the EFTA countries is a result of long negotiations. It is natural that in such negotiations no country can obtain all that it has set as a target when preparing for the discussions. Nevertheless from the Finnish side we may say that the present free trade Agreement between Finland and the EFTA countries meets Finnish interests fairly well, and we believe that the same applies to the EFTA countries also. During these lengthy negotiations we have noted with satisfaction that our sincere efforts have found a good response in the EFTA countries and also in other countries with whom we had to carry out negotiations and discussions regarding this matter. We can also say that when negotiating with Finland, the EFTA countries have in the eyes of the world been put to the first test as regards the vitality and flexibility of their Association. In the present day a certain degree of flexibility in these kinds of commercial arrangements is perhaps not without its merits, if one wants to avoid divergences of opinion between countries.

One proof of the flexibility of the EFTA countries in regard to Finland has been their understanding of the fact that Finland had, in accordance with its existing international obligations, to look to its future trade relations with her big neighbour the Soviet Union.



The Pyhäkoski electric plant. (Photo Roos)

It is natural that Finnish trade with the Soviet Union is relatively large, and will remain so, because the Soviet Union is a neighbouring country, and because the trade between the two countries has in reality a long tradition. This trade is undoubtedly favoured by these neighbourly relations, and this aspect should lead other countries to understand the mutual interest of Finland and the Soviet Union in developing their trade. The arrangements agreed upon between Finland and the Soviet Union are based on their neighbourly relations.

The commercial benefits which the Agreement between Finland and EFTA might give to the Parties to the Agreement do not depend on the Agreement only but to a large extend on its application. A growing economy is in all countries dynamic, in a continuous process of change, and a successful commercial policy has to keep this in mind. I think I may say that Finland wants to be a sincere and honest partner, and we do not have any doubts as to the attitude of the EFTA countries towards Finland. We are also convinced that the EFTA countries will continue in the future to take into account the representations Finland might make which arise from Finland's special international position and from Finland's desire to develop her trade with all countries with whom natural conditions for mutual trade exist. In any case the markets of the EFTA countries are of special interest for our economy. We for our part believe that the Finnish market, even if it is relatively small, is of interest for the EFTA countries, taking into account the continuous increase of Finland's purchasing power. (Tr.)

FACTS ABOUT EFTA

The EFTA countries, combined, export about one quarter of their gross national product, whilst imports account on the average for approximately 30 per cent of EFTA's gross national product — some EFTA members reaching percentages of 40 to 45 per cent;

EFTA countries export nearly six times as much to non-Members as they export to one another, and nearly twice as much to countries outside, as to countries inside Europe ;

EFTA countries, with 90 million inhabitants, have a population corresponding to hardly more than 50 per cent of the population of the E.E.C. which is reckoned at 170 million inhabitants ; yet EFTA's imports are equivalent to 80 per cent of the imports of the E.E.C., and the proportion for exports is 65 per cent.

THE FINNISH ECONOMY

(*Continued from page 6*)

Finnish exports. Leading metal industry exports have been machinery for the pulp and paper industries, ships and boats, and copper, including cable products.

The smooth flow of foreign trade has always been a leading factor in the growth and stability of the Finnish economy and in recent years exports of goods and services have corresponded to approximately one quarter of the gross domestic product.

Structure of Finland's Exports
(billions of markkas)
1959

	EFTA	E.E.C.	East bloc	Other	Total
1. Dairy products . .	4.7	2.3	1.6	0.6	9.2
2. Wood industry products	38.8	25.5	4.8	8.0	77.1
3. Wood pulp, paper, board	32.1	35.4	18.3	34.1	119.9
4. Metal industry products	2.7	1.3	34.7	5.3	44.0
5. Other	5.2	6.3	3.3	2.3	17.1
1959 Total	**83.5**	**70.8**	**62.7**	**50.3**	**267.3**
% . . .	31.3	26.5	23.4	18.8	100.0
1960 Total	**110.8**	**88.6**	**63.3**	**53.8**	**316.5**
% . . .	35.0	28.0	20.0	17.0	100.0

Thus in 1960 total exports increased by 18.4%.

Structure of Finland's Imports
(billions of markkas)
1959

	EFTA	E.E.C.	East bloc	Other	Total
1. Farm and fishery products, fats, oils .	5.3	6.4	17.1	16.4	45.2
2. Mineral fuels and lubricants	1.3	0.9	18.1	0.2	20.5
3. Chemicals, chemical industry products (incl. fertilizers) and rubber	11.9	12.9	4.7	2.5	32.0
4. Textile raw materials and products . . .	9.0	10.6	3.6	1.6	24.8
5. Metal industry products	50.3	49.7	14.7	8.4	123.1
6. Other	7.1	5.2	7.2	2.2	21.7
1959 Total	**84.9**	**85.7**	**65.4**	**31.3**	**267.3**
% . . .	31.8	32.1	24.5	11.6	100.0
1960 Total	**115.6**	**115.6**	**71.4**	**37.4**	**340.0**
% . . .	34.0	34.0	21.0	11.0	100.0

Close to 80 per cent of Finland's imports from the EFTA consist of dutiable finished products: the pattern is similar in respect of the E.E.C., whereas

The Kaukopää pape

over 75 per cent of Finland's imports from the East are farm products and non-dutiable raw materials and fuels.

In 1960 imports increased substantially—by no less than 27.2%—with an increase in investment goods of some 40%. The bulk of the increased imports came from EFTA and the E.E.C.

At the present time about 80 per cent of Finland's imports from both the Western European area and the dollar area are liberalised; of the remaining 20% the bulk falls within the framework of a global quota system. Trade with the East bloc countries takes place on a strictly bilateral basis. The major non-liberalised items in Finland's trade with her Western European trading partners are foodstuffs, mineral fuels, clothing and passenger cars.

The prospect at present is for a growth in production and exports. Overall production is at a level of about 5-6 per cent above that of the first quarter of 1960, unemployment is down to less than 1.5 per cent of the labour force, and investment remains at a high level. The investment plans of the paper industry, for example, call for an expansion of capacity by about 45 per cent above the 1959 level by the end of 1963 and by a further 20-25 per cent during the latter half of the 60's. In the mining industry rapid expansion is also taking place.

argest in the world. (Photo Pietinen)

Despite a slowing-down of activity in, for example, the United Kingdom and United States, no indications of a slump have yet been observed in the international paper market and Finnish export shipments of pulp and paper are expected to increase, probably by about 15%, in 1961.

Production forecasts for the different trades and for exports indicate that overall production in Finland will increase by some 4-5% in 1961. Thus the picture of general expansion creates an atmosphere favourable for an association of Finland in the framework of regional economic co-operation. (Tr.)

National Supply-Demand Balances for 1958-1960
(billions of markkas)

	1958	1959	1960 Estimate
Aggregate supply			
Gross domestic product at market prices	1,280	1,363	1,547
Imports of goods and services	262	302	380
Total	**1,542**	**1,665**	**1,927**
Aggregate demand			
Exports of goods and services	287	311	368
Domestic gross investment	397	434	542
Consumption	855	918	1,016
Transfers to abroad (net)	3	1	1
Total	**1,542**	**1,665**	**1,927**

AGREEMENT SIGNED IN HELSINKI

THE Agreement creating an Association between Finland and the Member States of the European Free Trade Association was signed on 27th March in Helsinki. The ceremony at the Government Banquet Hall was opened by Finland's Minister of Trade and Industry, Mr. A. Karjalainen, who expressed his thanks to the representatives of the seven EFTA countries, to the Secretary-General, who had been prevented by illness from attending, and to the EFTA Secretariat, for their cooperative spirit in the course of the negotiations. "Finland's special position was taken into account by all parties concerned," Mr. Karjalainen said. "I venture to say that in every respect we have had ample evidence of sympathetic understanding for which we feel happy and grateful."

The Agreement with the attached Protocol was signed by Ambassador A. H. Hobel for Austria, Chargé d'affaires J. V. Rechendorff for Denmark, Ambassador K. Lykke for Norway, Ambassador A. R. Potier for Portugal, Ambassador G. Engzell for Sweden, Ambassador R. Hunziker for Switzerland and Ambassador C. D. W. O'Neill for the United Kingdom, and last by Minister Karjalainen for Finland.

Mr. C.D.W. O'Neill then welcomed Finland into her new association. After pointing out that EFTA was among the most notable expressions of the strong desire in Europe for more rational and more liberal trading policies, he declared that Finland's association with the members of EFTA appeared to be a matter of practical business and common sense. "About one third of Finland's trade in both directions is done with the EFTA countries and this proportion is tending to rise. Her close trading relationships with Scandinavia and the United Kingdom are ancient and well established. If Finland is to maintain and indeed increase her share of these markets, association with EFTA is clearly advantageous. We hope that her trade with all the EFTA countries will continue to increase in future. It is significant that trade between the seven signatories of the Stockholm Convention increased last year by no less than fifteen per cent."

The signing ceremony was attended by Mr. K. Hammarskjöld and Mr. Ch. Müller representing the EFTA Secretariat as well as by members of the Finnish Delegation which negotiated the Agreement. In the evening Mr. Karjalainen gave a dinner for those who took part in the signing. Among the guests were also Foreign Minister R. Toerngren and other Members of the Finnish Government.

OUTLINE OF EFTA ORIGIN SYSTEM

SINCE EFTA is a free trade area, and not a customs union, each Member State retains its own external tariff and there is no common tariff on imports from outside the Area of the Association. To ensure that a commodity from outside the Area is not imported into a Member country with a low tariff simply to be re-exported to another Member country with a higher tariff on the same commodity, the Convention includes criteria determining which goods traded between Member States are entitled to benefit from the tariff reductions under the EFTA Convention.

EXAMPLE

A particular machine might be subject to a 20 per cent duty in EFTA country A, but only 8 per cent in EFTA country B. If there were no origin system, an exporter from a non-Area country could send the machine to B, paying the 8 per cent, and have it reconsigned from B to A where it would enter without payment of further duty when the EFTA Convention is fully in operation. The additional freight would normally be insufficient to prevent this, and country A's 20 per cent tariff on imports from non-Area countries would be " undermined ".

THE ORIGIN CRITERIA

Article 4 and Annex B of the Convention set out the EFTA origin criteria. There are three ways in which goods can qualify for Area origin :—

(a) if they have been wholly produced within the Area, taking into account the Basic Materials List (see below) ;

(b) if they have been produced within the Area by a specified process of transformation (the " process criterion ") ;

(c) if they have been produced within the Area and the value of non-Area materials used in their production does not exceed 50 per cent of their export price (the " percentage criterion "). The Basic Materials List (see below) is important in this connection.

In general, traders are free to choose under which of the three criteria they claim that the goods are of Area origin (except that the percentage criterion does not apply to the textile goods listed in Schedule II to Annex B). This freedom of choice is also helpful to traders in that, where the non-Area content is near the 50 per cent borderline, the alternative process criterion will often simplify the procedure for determining Area origin.

THE PROCESS CRITERION

Schedules I and II to Annex B set out against each class of goods the processes, referred to as qualifying processes, which must be performed in the Area if the goods are to qualify under the process criterion.

EXAMPLES

(i) For gramophone records (Brussels Nomenclature heading 92.12) the qualifying process is " impression ".

(ii) Unwrought copper (Brussels Nomenclature heading 74.01) qualifies when made from the matte stage in the Area, or from any earlier stage in the chain of production (e.g. from the ore).

(iii) Electric motors (Brussels Nomenclature heading 85.01) qualify when manufactured " from materials not falling in 85.01 ". This qualifying process has the broad effect of allowing manufacture from materials such as copper wire, dynamo sheets or general purpose parts, such as screws, while precluding mere assembly of specialised parts or trifling operations on the product itself.

(iv) Most outerwear (Brussels Nomenclature headings 61.01 and 61.02) qualifies when made in the Area from certain types of fabric.

The lists of qualifying processes were drawn up with regard, where possible, to existing patterns of trade. They ensure that a wide range of goods will be treated as of Area origin if a single substantial industrial operation has been performed on them in the Area.

TEXTILES AND CLOTHING

Schedule II to Annex B is concerned with textiles and clothing, and goods in this sector cannot qualify for Area origin under the percentage criterion. The qualifying processes for this sector require a fairly substantial degree of transformation within the Area, but nevertheless they are liberal in some important respects. In particular, most items of men's and women's outerwear made from

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Formal Decisions of the Council

Decision No. 7 : Rectification of Printing Errors in the Official Text of the Convention

Taken at the seventh meeting of the Council on 2nd March, 1961, under the general powers of decision contained in Article 32 of the Convention.

In this Decision the Council formally corrected several printing errors in the text of the Convention as it was signed, in preparation for the printing of a new edition of the text of the Convention.

Decision No. 8: Amendment of Annex C to the Convention

Taken by the Council at its ninth meeting on 15th March, 1961, under the power of amendment contained in paragraph 3 of Article 13 of the Convention.

Annex C to the Convention sets out the forms of aid which Member States are prohibited from giving to exports under paragraph 1 *(a)* of Article 13. The list of prohibited aids is in exactly the same words as the list annexed to the decision of the O.E.E.C. Council on measures designed to aid exports, as that list stood at the time when the Convention was signed. On 17th June, 1960, however, the O.E.E.C. Council amended point *(d)* in the O.E.E.C. list and the present Decision makes the corresponding amendment to point *(d)* of Annex C to the Convention. This Decision too was taken at this time in view of the impending publication of a new edition of the Convention.

certain types of non-Area cloth qualify for Area origin; non-Area trimmings (including lace, but not linings) can be freely used. For most yarns and fabrics 20 per cent of total weight could consist of subsidiary fibre in any form from non-Area sources (e.g. a non-Area "effect" yarn of rayon may be used in a cotton cloth made from cotton fibre in the area); the finished article would still qualify for Area origin.

THE PERCENTAGE CRITERION

Where Area origin is claimed under the percentage criterion, the effect is to ensure that the goods contain a sufficient element of materials originating in the Area, or that a sufficient proportion of their finished value has been added within the Area, to justify their being regarded as products of the Area.

EXAMPLE

Suppose steel wire rope worth 60 kronor is made in EFTA country A from non-Area steel wire worth anything up to 30 kronor, it would qualify for the reduced EFTA duty when sent into EFTA country B. If the non-Area wire used in making the wire rope was worth more than 30 kronor, however, the wire rope would not qualify.

THE BASIC MATERIALS LIST

Most of the basic materials of industry can, when working out the non-Area content of finished goods, count as of Area origin regardless of their actual origin. These basic materials (listed in Schedule III to Annex B) include nearly all the essential raw materials of industry.

EXAMPLES OF LISTED MATERIALS ARE:

Ores of iron and non-ferrous metals; most minerals, such as graphite, quartz, asbestos and mica; coal, coke and petroleum; unwrought metals, such as pig iron, copper, lead, zinc, tin, as well as gold, platinum and some other metals; timber; vegetable products, such as oil seeds, tanning materials, spices, coffee and many others; and animal products, such as bones, hides and skins and furs. The List also includes some intermediate products — such as finished steel, ferro-alloys, aluminium oxide and wood pulp.

These materials are imported in large quantities from non-Area countries, and many products made from them in the Area qualify for Area origin under the 50 per cent criterion, notwithstanding that the products have an actual non-Area content of well over 50 per cent of their value. The Basic Materials List thus enables more finished goods to qualify for Area origin. This means that there will be a minimum of interference with exports of these materials from non-Area countries.

EXAMPLE

But for the Basic Materials List, copper rods produced in EFTA country A from unwrought copper (wire bars) imported from a non-Area country might easily contain 90 per cent by value of non-Area content and would be far from qualifying under the percentage criterion. Since unwrought copper is, however, on the Basic Materials List, and the 90 per cent of the value of the rods attributable to the wire bars also counts as of Area origin, the rods count as of 100 per cent Area origin when exported to EFTA country B.

FORMS AND PROCEDURES

Detailed rules for the administration and application of the origin criteria are set out in Annex B. The different forms of documentary evidence which are specified in Schedule IV to Annex B, have been designed to meet the needs of the various categories of transactions within the Area. An important feature is that the exporter, in nearly every case, has the choice of making a simple declaration or obtaining a certificate from a government authority or authorised body. In practice, Form 1a, which consists of a simple declaration of origin on the ordinary commercial invoice, is used in the majority of cases.

EXPERIENCE OF THE OPERATION OF EFTA ORIGIN RULES

Experience to date has shown that the origin rules and procedures are being satisfactorily applied and do not constitute an obstacle to valid claims for Area tariff treatment in most cases. The fears expressed earlier that the system would prove difficult of practical application have so far been shown to be exaggerated. Producers, exporters and the bodies which are authorised to issue certificates of origin soon became acquainted with the general outline of the origin criteria and rules, and with their application to particular products.

CONCLUSION

An origin system of some kind is inevitable in a free trade area like EFTA, but the EFTA system as a whold has been so designed that it is simple to administer ane causes the least possible difficulty to traders within the Association.

The criteria have also been liberally drawn in such a way that the great bulk of goods traded between the Member countries qualifies for Area origin. Although the use of Area materials helps the finished goods to qualify more easily for Area origin, the criteria of origin in EFTA are such that non-Area suppliers of raw materials and intermediate products can expect to see their products entering indirectly into an increasing volume of intra-EFTA trade.

Mr. de Besche's Visit to the United States and Canada

MR. Hubert de Besche, Deputy Secretary-General in the Swedish Foreign Ministry, has recently paid a visit to the United States and Canada. In the course of this visit he made several speeches on European Integration and the progress and attitude of EFTA. He also had an opportunity to discuss European problems with Hon. H. C. Green, Minister of External Affairs, and Mr. A. E. Ritchie, Assistant Under-Secretary of State for External Affairs, in Ottawa, and Mr. C. Douglas Dillon, Secretary of Treasury, Mr. Luther H. Hodges, Secretary of Commerce, Mr. George W. Ball, Under-Secretary of State for Economic Affairs, and Professor W. W. Heller, Chairman of the Presidential Council of Economic Advisers, in Washington.

Mr. de Besche was gratified to find an increasing understanding of EFTA and its objectives, and to observe the determination in the U.S. Administration to take a more active part in developments in the field of international trade.

THE STOCKHOLM CONVENTION EXAMINED

Part 2 — The Association and its Objectives

The Preamble

THE Preamble to the Convention is relatively short but is of very considerable importance, especially because of the intimate relationship between its staments of purpose and intention and the responsibilities which, in the body of the Convention, are laid upon the Council and the Member States.

The first *considerandum*, which refers to the Convention which established the O.E.E.C., is an acknowledgement of the debt which the Member States owe to the O.E.E.C. for its prior work in bringing the countries of Europe closer together and reducing barriers to trade between them, especially in the fields of quotas and invisibles. This theme is expanded in the first two paragraphs of the Resolution issued by the EFTA Ministers who initialled the Convention on 20th November, 1959[4]. In the second *considerandum* of the Preamble, the Member States declare their intention of maintaining and developing the cooperation to which the O.E.E.C. gave birth; the choice of phrasing here implies cooperation not only among the Member States themselves but also between them and all the other O.E.E.C. countries. This intention is reflected in Article 36 of the Convention, which says that the Council of EFTA " shall in particular seek to establish close collaboration " with the O.E.E.C., this being expressed as a clear obligation. In fact the Council has given considerable attention to this requirement of the Convention and from its earliest days became an important forum for consultation between the Member States regarding the establishment of the O.E.C.D. in succession to the O.E.E.C.[5]

The third *considerandum* is a statement of the determination of the Member States to facilitate the creation of a free market comprising all the O.E.E.C. countries. Its meaning is twofold : it is a statement both of a general objective and of the belief of the seven Governments that, in establishing EFTA, they are furthering that objective and bringing its realisation nearer. This statement reflects the words of the communiqué of 21st July, 1959 : " Ministers affirmed that in establishing a European Free Trade Association it would be their purpose to facilitate negotiations both with the European Economic Community and also with other members of the O.E.E.C. These negotiations would have as their object to... establish a multilateral association embracing all members of the O.E.E.C. "[6] The last five paragraphs of the Resolution of 20th November, 1959, state this purpose even more categorically. These statements of intention and of determination must not be overlooked, since they remain fundamental to the existence and purpose of EFTA. That this is so has not only been reaffirmed many times by EFTA Ministers; it is written into the Council's terms of reference in order to ensure that the objective is energetically pursued. Paragraph 1 *(c)* of Article 32 says that " It shall be the responsibility of the Council . . . to consider whether further action should be taken in order to . . . facilitate the establishment of closer links with other States, unions of States or international organisations ", while paragraph 4 of the same Article empowers the Council, in exercising this responsibility, to take decisions binding upon Member States. The Council is thus both required and equipped to pursue the task.

The fourth and fifth *consideranda* refer to the GATT and express the resolution of the Member States to promote the objectives of the GATT. At the time when they were written, five of the seven EFTA countries had long been contracting parties to the GATT, a sixth was in the process of becoming one and the seventh was about to do so. EFTA regards itself, therefore, as to an important extent a child of the GATT as well as a child of the O.E.E.C. The EFTA countries are all world trading nations, conscious of the vital nature of their commercial links with countries outside as well as within Europe. They therefore acknowledged in the Preamble the debt they owe to the work already done by GATT in reducing trade barriers and their firm wish to try and carry this work further.[7] The desire of the authors of the Convention, throughout the drafting of the text, to ensure that it would be thoroughly consistent with both the letter and the spirit of the GATT (and especially Article XXIV) is only one aspect of this general EFTA support for the GATT.

Both the references to the O.E.E.C. and those to the GATT in the Preamble are reflected throughout the Convention, wherever mention is made of " international obligations ".[8] In some cases the references are even more specific, for example the reference to the O.E.E.C. (and indirectly to the I.M.F.) in Article 30.

Article 37 makes it clear in the most specific terms that nothing in the Convention exempts any Member

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[4] See page 6 of Cmnd. 906, published by H. M. Stationery Office, London, November, 1959; this sets out the communique and Resolution of 20th November, 1959, together with the text of the Convention as initialled on that date by Ministers.

[5] See also paragraph 64 of the Draft Plan. The possibility there mentioned that EFTA might receive practical assistance from the O.E.E.C. has also been realised.

[6] Cmnd. 823.

[7] See also the seventh paragraph of the communique of 20th November, 1959.

[8] Cf. paragraph 1 of Article 19.

State from its wider international obligations under the O.E.E.C. Convention, the I.M.F., the GATT or any other international agreement.

While this is by no means an exhaustive analysis of the cross-references between the Preamble and the body of the Convention, it is enough to make it clear that the statements in the Preamble are not merely isolated generalities which the authors of the Convention put in to make it look respectable; they have a very definite meaning for the Member States and the following provisions of the Convention have been designed to ensure that, within the limits of what may be found possible, the purposes stated in the Preamble will be carried out.

Article 1: The Association

The purpose of this Article is to establish, at the very beginning of the Convention, the nature and title of EFTA, its membership, its geographical extent and its coverage. This is done at the beginning of the Convention so that references can be made, in a short way, to the Association, the Member States, the Area of the Association and the Council, in the following Articles without any further need to explain what is meant by these terms whenever they are used and without obliging the reader to refer to a definitions article hidden away somewhere at the back.

The first paragraph of Article 1 says that EFTA is an international organisation, that is to say an entity having juridical personality. This is defined in Article 1 of the Protocol on the Legal Capacity, Privileges and Immunities of the Association, which was signed, on 28th July, 1960, in accordance with paragraph 1 of Article 35 of the Convention.

The first paragraph of Article 1 also states the full title of EFTA, a title chosen to be as far as possible descriptive of the nature and purpose of the organisation : an essentially European body, concerned with the establishment of free trade, and having the nature of an association of sovereign states, which is something more than the relationship between the Contracting Parties to the GATT, for example, but something less than political union.

The second paragraph indicates that the Member States of EFTA are the seven who founded it together with any other States which may in future accede to it. The provisions governing accession, and also association, are in Article 41.

The third paragraph defines the Area of the Association in terms of the territories to which the Convention applies in accordance with Article 43. The expression " the Area of the Association " is in fact a term of art, the need for which will become apparen- when Article 4, on the origin of goods, is examined. The production of goods in the Area of the Association is one of the conditions of the eligibility of goods for Area tariff treatment, which is to say their eligibility to benefit from the conditions of free trade which the Convention is designed to establish.

The fourth paragraph of Article 1 identifies the Council as the principal organ of EFTA, but at the same time indicates that there may be other organs, it being for the Council to decide on their establishment. The significance of this is that, whenever reference is made in the following Articles of the Convention to the Council, it will readily be understood that the reference includes any subordinate body which the Council may have set up with specific tasks and delegated powers. Except in Article 32, which defines the responsibilities and powers of the Council, the term " the Council " is therefore not necessarily to be understood in an exclusive sense.

Article 2: Objectives

This Article states the objectives of the Association. As has already been explained in the general introduction, these objectives do not apply in the agricultural or fisheries sectors, which have their own more specific objectives. It has also been explained that these objectives are of considerable importance in relation to the consultation and complaints procedure in Article 31 and that, through that procedure, they have a determinative effect on the working of the Association as a whole.

The first and most important objective is largely self-explanatory—to promote a sustained expansion of economic activity, full employment, increased productivity and the rational use of resources, financial stability and continuous improvement of living standards. An important point to note is that the objective is to promote these things " in the Area of the Association and in each Member State "—implying that the progress to be made and the benefits to be achieved shall be shared fully and in a balanced way by all the partners. When it is remembered that the interests of the seven partners are not identical,

Studies of the EFTA Convention

This is the second in a series of studies written by an official in a personal capacity. The purpose of the series is not only to clarify for the general reader some of the more complicated and technical aspects of the Stockholm Convention, but also to indicate the basic ideas which, in the author's view, underly its various provisions.

The next article, to be published in the May issue of the Bulletin, will deal with the elimination of import duties.

DIRECTION OF EFTA'S TRADE DURING 1960

(with percentage changes on corresponding periods of 1959)

Monthly averages — Million U.S. dollars

Area of origin or destination / Period	O.E.E.C.			United States and Canada	Latin America	Eastern Europe	Rest of the World	World
	EFTA	EEC	Other					
IMPORTS (c.i.f.) into EFTA								
1960 January-June	306.2 (+20)	535.9 (+23)	59.2 (+19)	300.7 (+39)	110.0 (+3)	61.8 (+17)	520.3 (+9)	1,894.2 (+19)
July-December	315.7 (+11)	558.7 (+12)	64.4 (+21)	339.7 (+32)	102.1 (−1)	79.7 (+16)	492.6 (+3)	1,952.8 (+12)
January-December	310.9 (+15)	547.3 (+17)	61.8 (+20)	320.2 (+35)	106.0 (+1)	70.8 (+17)	506.6 (+6)	1,923.5 (+15)
EXPORTS (f.o.b.) from EFTA								
1960 January-June	283.7 (+17)	361.5 (+15)	60.4 (+6)	201.7 (+4)	71.4 (+4)	55.5 (+29)	503.2 (+12)	1,537.4 (+12)
July-December	299.8 (+13)	376.0 (+10)	58.2 (+7)	179.2 (−15)	79.2 (+13)	60.6 (+11)	498.4 (+6)	1,551.4 (+6)
January-December	291.8 (+15)	368.7 (+12)	59.3 (+6)	190.4 (−6)	75.3 (+9)	58.0 (+19)	500.8 (+9)	1,544.4 (+9)

Source: OEEC Statistical Bulletin, Series A, and National Trade Statistics.

and also that some have more highly developed economies than others, it will be seen that this concept of balance is of fundamental significance in shaping EFTA itself and its activities. It means not only that the Convention has to be considered as a whole, to ensure a balance of its parts, but also that EFTA has to be considered as a whole, to achieve and maintain a balance between the Member States and the different sectors of concern to them. For this reason EFTA will always tend to move forward on the broadest possible front. [9]

[9] This is exemplified very clearly by the decision of the Council, announced in the communiqué of 16th February, 1961 (EFTA Bulletin, March, 1961, page 8), concerning the matters to be studied in connection with the possibility of advancing the subsequent stages of the timetable for tariff reductions.

EFTA INFORMATION OFFICE IN USA

In the United States enquiries about EFTA should be addressed to: European Trade Free Association; Washington Information Office, Suite 622, Sheraton Building, 711 Fourteenth St., N.W., Washington 5, D.C.; Telephone: EXecutive 3-6015.

The second objective is to secure that trade will take place in conditions of fair competition. The intention here is to point to and reinforce the so-called rules of competition in Articles 13 to 17, in effect tying them firmly into the scheme of interrelationship between the objectives, the consultation and complaints procedure and the provisions of the Convention dealing with trade in the industrial sector. In a sense this second objective is not the same kind of objective as the first, since it has a functional character which the first does not possess, at least in the same degree.

In the third objective, concerning the supply of raw materials, this functional character is even more marked, since in this case there is no provision in the Convention prescribing what should be done to deal with disparity in the supply of raw materials. There is no such provision because, in the very nature of the case, it is impossible to foresee with any precision or confidence how a significant disparity might arise, what its significance to EFTA might be or what measures should be taken to deal with the situation. The effect of the solution which was adopted, therefore, is that the possibility that a disparity in the supply of raw materials might upset the proper working of EFTA is recognised, and by virtue of the reference to Article 2 contained in paragraph 1 of Article 31, a Member State may draw the attention of the Council to the existence of a problem, which the Council must

TRADE BETWEEN EFTA COUNTRIES IN JULY-DECEMBER 1960

(with percentage change on July-December 1959)

Monthly averages

Thousand U.S. dollars

Reporting country \ Country of origin or destination	Austria	Denmark	Norway	Portugal	Sweden	Switzerland	U. K.	EFTA
IMPORTS (c.i.f.) INTO:								
Austria		719 (−12)	588 (+30)	184 (−47)	2,072 (+75)	5,584 (+23)	5,407 (+15)	14,554 (+21)
Denmark	983 (+11)		4,700 (+15)	479 (+14)	15,488 (+8)	4,455 (+25)	28.074 (−4)	54,139 (+3)
Norway	843 (+17)	4,620 (−24)		281 (−10)	16,983 (−3)	1,823 (+20)	18,796 (+26)	43,346 (+6)
Portugal	344 (+22)	240 (−9)	380 (+46)		1,280 (+37)	2,030 (+42)	6,049 (+21)	10,323 (+26)
Sweden	2,465 (+30)	10,525 (+22)	10,181 (+32)	959 (−8)		4,781 (+15)	31,249 (+7)	60,160 (+15)
Switzerland	4,569 (+18)	1,753 (+14)	799 (+3)	409 (+25)	3,626 (+32)		11,008 (−10)	22,164 (+3)
United Kingdom	2,591 (+22)	35,315 (+4)	18,087 (+20)	4,829 (+19)	39,148 (+25)	11,016 (+7)		110,986 (+15)
EFTA	11,795 (+21)	53,172 (+4)	34,735 (+23)	7,141 (+9)	78,557 (+16)	29,689 (+16)	100,583 (+6)	315,672 (+11)
EXPORTS (f.o.b.) FROM:								
Austria		1,085 (+37)	840 (+16)	293 (+29)	2,635 (+24)	4,983 (+18)	2,506 (+16)	12,342 (+20)
Denmark	671 (+8)		5,369 (−17)	297 (+26)	11,046 (+21)	1,913 (+18)	34,253 (+6)	53,549 (+6)
Norway	559 (+21)	4,599 (+8)		516 (+217)	9,674 (+36)	985 (−8)	16,090 (+18)	32,423 (+21)
Portugal	157 (−4)	431 (+31)	259 (+4)		924 (+60)	391 (+11)	4,428 (+42)	6,590 (+38)
Sweden	1,725 (+70)	15,010 (+21)	20,380 (+13)	1,094 (+29)		3,430 (+36)	35,293 (+20)	76,932 (+20)
Switzerland	5,706 (+24)	3,140 (+24)	1,761 (+7)	1,894 (+14)	4,927 (+16)		9,700 (+13)	27,128 (+17)
United Kingdom	4,826 (+13)	21,222 (+2)	17,211 (+16)	5,548 (+21)	31,033 (+12)	11,029 (—16)		90,869 (+6)
EFTA	13,644 (+23)	45,487 (+10)	45,820 (+9)	9,642 (+25)	60,239 (+18)	22,731 (−1)	102,270 (+15)	299,833 (+13)

Source: O.E.E.C. Statistical Bulletin, Series A, and National Trade Statistics.

promptly examine. This is, therefore, a rather neat way of providing for a situation of a kind which cannot be clearly foreseen in advance to be dealt with — an excellent example, in fact, of the pragmatic approach discussed in the general introduction to this series.

The fourth objective reflects the statements of general principle contained in the second and fifth *consideranda* of the Preamble. This cross-reference to the Preamble is made in order to bring these principles clearly within the range of Article 31, so as to make doubly sure that EFTA, as it pursues its course of development, will continue to demonstrate its outward-looking character.

Taking these objectives as a whole, it is clear that in their drafting each word was carefully weighed not only to ensure that they were clear in themselves but also, in the light of the interrelation of this Article with the Convention as a whole, to ensure that EFTA would be bound to act and grow in the manner which the signatories of the Convention intended.

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